

FDIC State Profile

Spring 2005

South Dakota

South Dakota employment increased moderately in the fourth quarter.

- South Dakota's net employment increased by 300 jobs in the fourth quarter and ended the calendar year with 5,500 more jobs, the best annual increase since 1999.
- The manufacturing sector continued to worsen, shedding jobs for the second consecutive quarter. Since 1999, the state's economy has added more than 6,700 net jobs but lost more than 6,800 manufacturing jobs (See Chart 1).
- South Dakota's unemployment rate remained unchanged at 3.5 percent in the fourth quarter, and is now tied for the third best ranking of the 50 states.

Banking performance remains solid.

- Asset quality, which suffered only modestly through South Dakota's 2000-02 economic downturn, continues to improve (See Table 1). The median past due and nonaccrual ratio declined sharply from one year ago.
- Earnings performance continues to strengthen with pretax return on assets increasing for the third consecutive year and net interest margin posting a strong increase in 2004. No established institutions posted earnings losses in the fourth quarter, the only time this has occurred in the past ten years.¹
- South Dakota institutions experienced a sizeable increase in other noncore funding in 2004. Other borrowings, such as Federal Home Loan Bank Advances, represented 3.6 percent of assets at year-end 2004 versus less than one percent the previous four years.

South Dakota's major commodities are forecast to earn less for farmers in 2005.

- In February 2005, the United States Department of Agriculture (USDA) forecast that farm income in 2005 will decline from its record level in 2004 (See Table 2). South Dakota's most important agricultural commodities—soybeans, corn, and cattle—will likely experience a decline in revenues.

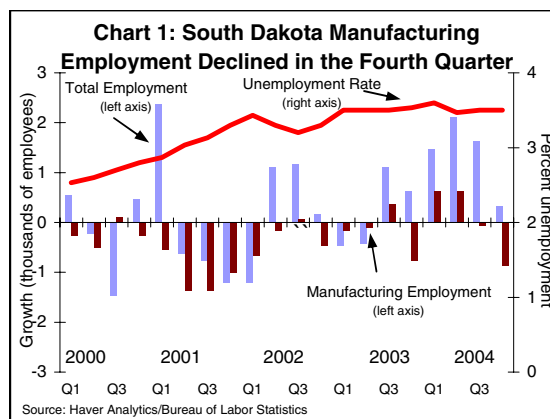


Table 1: Asset Quality Improves and Net Income Increases

	12-04	12-03	12-02	12-01	12-00
Capital					
Tier 1 Leverage Capital	10.6	10.7	11.1	10.9	10.9
Asset Quality					
Past Due Loan Ratio	1.47	1.95	1.59	2.03	1.91
Net Charge-off Rate	0.10	0.18	0.15	0.11	0.13
Earnings					
Pretax Return on Assets	1.65	1.57	1.52	1.47	1.84
Net Interest Margin	4.46	4.30	4.40	4.35	4.64

Source: FDIC. South Dakota institutions. Figures are median percent values.

Table 2: U.S. 2005 Farm Income to Decline from 2004 Record

\$Billions	2003	2004	Forecast 2005	Change 04-'05
Value of crop production	108.0	119.5	101.3	-18.2
Food grains	8.0	9.3	8.2	-1.1
Feed crops	24.3	27.0	25.3	-1.7
Oil crops	17.3	18.6	14.7	-3.9
All other crops	58.4	64.6	53.1	-11.5
Value of livestock production	104.7	122.2	117.9	-4.3
Meat animals	56.2	61.1	60.4	-0.7
Dairy products	21.2	27.8	25.0	-2.8
Other Livestock	27.3	33.4	32.5	-0.9
Other Revenues	28.2	28.7	30.0	1.3
Value of agricultural production	240.9	270.5	249.2	-21.2
Direct Government payments	15.9	14.5	24.1	9.6
Inputs, Taxes, Capital	(197.6)	(211.4)	(208.9)	2.5
Net farm income	59.2	73.6	64.4	-9.2

Source: USDA Economic Research Service

¹Established institutions are insured institutions that have been in operation for at least three years.

State Profile

- Low commodity prices may be at least partially offset by higher counter-cyclical government payments forecast for 2005.

Commercial banks are likely to face pressure to raise nonmaturity deposit rates.

- In relatively stable interest-rate environments, the cost of bank nonmaturity deposits typically run at about half of the Federal funds rate. When short-term rates tumbled in 2001 and 2002, however, deposit rates failed to completely follow, indicating that nonmaturity deposit rates had reached a natural floor (See Chart 2).
- Should interest rates continue to rise, banks will likely feel increasing pressure from customers to raise deposit rates.

South Dakota's farmland increased in value significantly in 2004.

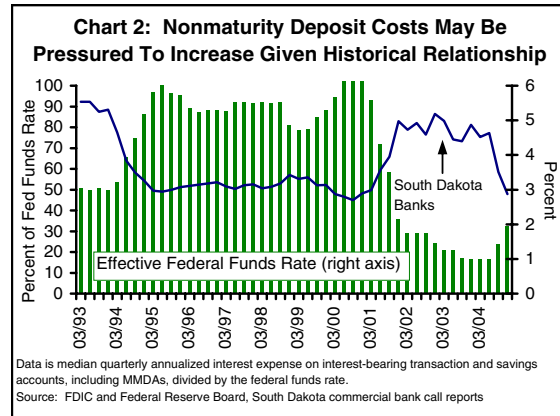
- According to an annual survey by South Dakota State University, the average value of South Dakota farmland increased more than 17 percent in 2004, compared with an annual average increase of 6 percent over the previous 12 years. The increase was distributed widely across the state (See Map 1).
- While the average price of \$527 per acre was the highest recorded in current dollars, farmland prices in the 1980s were higher in inflation-adjusted dollars. In 1984, for example, South Dakota's average land price exceeded \$580 in 2004 dollars.
- Survey respondents listed low interest rates, agricultural prices and yields, and demand by investors as the most important factors contributing to land price increases.

Farm banks are concentrating agricultural lending on farmland.

- Over the past decade, farm banks have taken steps to diversify their loan portfolios, which tend to be heavy with agriculture production loans. Such loans declined from 52.7 percent of total loans to 43.4 percent between year-end 1994 and 2000, and then stabilized until a modest increase in 2004 (See Chart 3).
- Despite the overall decline in farm operating loans, reliance on farmland-secured loans increased 59 percent during that period, with much of the increase between 1994 and 2000. The increase in farmland lending is attributable to increased demand for farmland for both agricultural and nonagricultural uses, coupled with the stimulus of historically low interest rates. Additionally, some of the early increase likely was due to carryover debt; South Dakota farm banks reported elevated agriculture

loan delinquencies and net charge-off rates during that period.

- With an increasing share of farm bank loan volume secured by farmland, its price stability becomes more important. Any unexpected shocks to farmland values, such as swift increases in interest rates, significant cuts in federal farm payments, or decreases in the demand for farmland used for urban expansion or recreational purposes, could have adverse effects on producers and agricultural lenders.



Map 1: South Dakota Farmland Values Increased Significantly in 2004

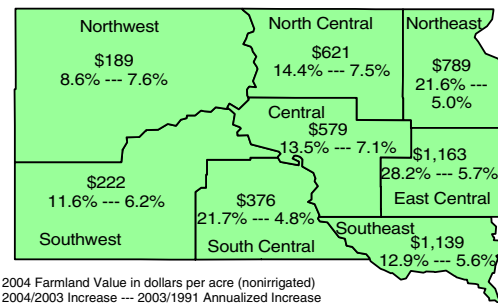
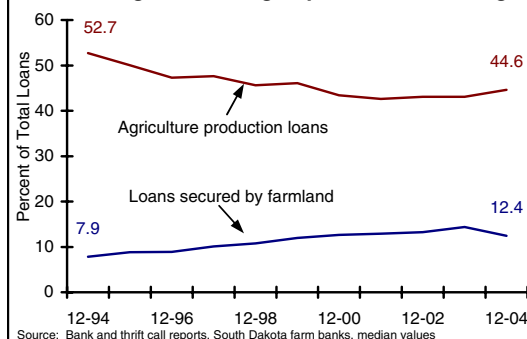


Chart 3: Lending Against Farmland Is Increasing Although Overall Ag Exposure Is Declining



South Dakota at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	0.2%	0.3%	0.0%	-0.1%
Manufacturing (10%)	4.3%	-1.0%	-3.2%	-9.8%	-2.1%
Other (non-manufacturing) Goods-Producing (5%)	1.6%	2.7%	0.5%	4.4%	2.2%
Private Service-Producing (65%)	1.4%	0.2%	0.7%	0.2%	0.8%
Government (19%)	0.7%	0.2%	0.9%	4.0%	-2.6%
Unemployment Rate (% of labor force)	3.5	3.5	3.3	3.3	2.8

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	8.6%	-0.3%	4.3%	2.9%
Single-Family Home Permits	20.1%	-0.2%	25.6%	18.5%	-6.5%
Multifamily Building Permits	201.7%	-54.3%	-62.1%	40.5%	-6.9%
Existing Home Sales	12.4%	0.5%	25.0%	14.3%	-6.7%
Home Price Index	5.4%	5.8%	4.7%	5.4%	4.5%
Bankruptcy Filings per 1000 people (quarterly level)	0.79	0.85	0.88	0.89	0.71

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	91	94	97	97	101
Total Assets (in millions)	442,450	85,413	74,358	52,180	38,308
New Institutions (# < 3 years)	0	0	1	1	1
Subchapter S Institutions	33	32	31	30	28

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.47	1.95	1.59	2.03	1.91
ALLL/Total Loans (median %)	1.59	1.75	1.73	1.78	1.68
ALLL/Noncurrent Loans (median multiple)	2.69	2.11	2.59	2.13	2.62
Net Loan Losses / Total Loans (median %)	0.10	0.18	0.15	0.11	0.13

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	10.56	10.72	11.09	10.95	10.90
Return on Assets (median %)	1.32	1.15	1.16	1.17	1.35
Pretax Return on Assets (median %)	1.65	1.57	1.52	1.47	1.87
Net Interest Margin (median %)	4.55	4.32	4.40	4.35	4.64
Yield on Earning Assets (median %)	6.16	6.33	7.09	8.21	8.78
Cost of Funding Earning Assets (median %)	1.61	1.90	2.61	3.83	4.16
Provisions to Avg. Assets (median %)	0.08	0.09	0.12	0.12	0.13
Noninterest Income to Avg. Assets (median %)	0.76	0.63	0.62	0.61	0.65
Overhead to Avg. Assets (median %)	3.24	3.18	3.27	3.21	3.19

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	68.4	66.7	67.4	66.4	65.0
Noncore Funding to Assets (median %)	15.6	13.0	14.3	12.0	13.0
Long-term Assets to Assets (median %, call filers)	13.4	12.8	11.7	12.3	11.5
Brokered Deposits (number of institutions)	25	23	25	26	25
Brokered Deposits to Assets (median % for those above)	2.3	3.1	3.0	2.5	1.7

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	84.6	82.2	79.2	72.6	79.6
Commercial Real Estate	55.8	41.2	41.6	37.6	33.2
<i>Construction & Development</i>	3.2	2.0	1.8	1.1	0.9
<i>Multifamily Residential Real Estate</i>	0.0	0.0	0.0	0.0	0.0
<i>Nonresidential Real Estate</i>	35.7	37.0	37.8	29.1	21.0
Residential Real Estate	35.8	34.6	39.0	32.1	37.7
Consumer	50.4	50.1	52.6	57.1	56.6
Agriculture	251.9	253.7	262.8	247.6	254.6

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Sioux Falls, SD	33	43,738	< \$250 mil.	71 (78%)
Sioux City, IA-NE-SD	33	2,042	\$250 mil. to \$1 bil.	15 (16.5%)
Rapid City, SD	13	1,457	\$1 bil. to \$10 bil.	3 (3.3%)
			> \$10 bil.	2 (2.2%)